



PAT STRACHOTA

STATE REPRESENTATIVE

Committee on Insurance

AB277

October 6, 2011

Good afternoon. I want to thank the chair and members of the Committee for hearing my testimony today.

AB277 deals with adult dependant imputed income as it relates to receiving health insurance coverage for dependants ages 18 up to 26. The federal government has passed a tax exemption for income which is used to obtain health care coverage for adult dependent children. AB277 gives us as legislators the opportunity to simplify health care reform requirements for employers and consumers by putting our state laws in line with federal laws. This bill federalizes Wisconsin's tax code as it relates to employer payments for adult dependent care coverage retroactively effective for tax year 2011. Wisconsin is the last state to provide this exemption for state income tax purposes for Wisconsin workers.

Many Wisconsin employers and employees would face difficult accounting issues should this bill not be passed. Employers have not been given clear directions from the state on how to properly determine the "fair market value" of these benefits, leaving them scrambling to determine the best way to report the taxable value of their employees' coverage. Employees whose children have been receiving these benefits will have significant out-of-pocket costs imposed upon them if this bill is not passed. Employers will be forced to withhold a greater portion of their employees' paychecks to offset costs of taxing these benefits right before the holidays. This legislation preemptively fixes what could be an administrative nightmare.

AB277 needs to be implemented as soon as possible to stop this end-of-the-year tax dilemma. This bill simplifies Wisconsin businesses' and Wisconsin workers' tax obligations.



Van H. Wanggaard

Wisconsin State Senator

TESTIMONY ON SENATE BILL 203

Thank you, Mr. Chairman and Committee Members, for scheduling this hearing today on Senate Bill 203, which would adopt federal law by excluding from an employee's income certain payments made by an employer for to medical care.

SB 203 prevents Wisconsin from becoming a tax island in relation to what is known as "imputed income." Under current Wisconsin law, insurance companies are required to offer health insurance coverage to a parent's adult dependent children until the children turn 26. Unfortunately, the value of that coverage is taxable as income under current Wisconsin law.

In March, the federal government created a tax exemption for this income. This bill federalizes Wisconsin's tax code, and provides this exemption for state income tax purposes. Wisconsin is the only state that has not yet adopted this exemption - making Wisconsin a tax island. This bill corrects this mistake. It also makes this tax change retroactive and applicable to the 2011 tax year.

There will be several negative effects if we do not pass this bill. Chief among these is the hidden tax increase on approximately 15,000 Wisconsin taxpayers. Employees who receive this "benefit" will have an unexpected additional tax burden - of an unknown amount - on their 2011 tax bill. In these challenging times, we should make every effort to minimize taxes on our citizens.

This bill also prevents what would be an administrative nightmare for employers. Without this bill, employers must somehow determine the fair market value of these adult dependent health care benefits. Unfortunately, there is no clear guidance on determining this value. It is a shot in the dark for employers and their human resources personnel. Inaction leaves employers spending valuable time trying to determine the taxable value of a nebulous benefit - and only in Wisconsin.

Finally, this bill prevents employees' paychecks from decreasing as we enter the end of the year. Many employers have not yet withheld taxes from employees' paychecks for this benefit - specifically because they hope we will pass this bill. If we do not take action, employers may begin to withhold taxes related to this benefit and Wisconsinites will begin to see decreases in their paychecks.

SB 203, and its companion, deserves to be passed now to prevent a hidden tax increase on workers and an unnecessary burden on employers. Thank you.

Serving Racine County - Senate District 21



Testimony in Support Legislation to Federalize the Tax Code and Eliminate "Imputed Income" for Adult Dependent Coverage

Melissa Duffy on behalf of The Alliance

Thank you Mr. Chairman and committee members for the opportunity to testify in support of companion bills Senate Bill 203 and Assembly Bill 277. I am here on behalf of The Alliance, which is a health purchasing cooperative of mid-size to large employers, many of whom are multi-state companies that self-fund their benefit plans and provide coverage to approximately 83,000 Wisconsinites. Our 160 members include many familiar Wisconsin names like Fiskars, Culvers, Roundy's and Foremost Farms, as well as local government employers and a handful of employer coalitions.

The imputed income bill is one of the missing pieces that helps solve a puzzle that has been burdening employers and workers since Wisconsin's adult dependent mandate took effect in January of 2010. That initiative expanded the definition of dependent for coverage purposes but not for tax purposes, which resulted in employees having to pay income taxes on the value of the coverage provided to their adult children.

The issue was further complicated when the Affordable Care Act passed a few months later, immediately changing the federal tax code but imposing a different set of requirements for coverage of adult dependents which took effect for most plans in January of 2011. Needless to say, the divergence of state and federal laws relating to effective dates, coverage requirements and tax obligations has created an administratively impossible situation for Wisconsin employers and an extremely confusing situation for employees weighing coverage options for adult children. SB203/AB 277 builds upon work already done in the budget bill to equalize state and federal requirements and end this burden for employers and employees alike.

This has been addressed

One note of caution: Please do not allow passage of this bill to place additional burdens on employers that have complied with the law and withheld taxes for imputed income throughout the year. Employees that have had taxes withheld for the value of adult dependent coverage should be "made whole" via a larger tax return, not by forcing employers to adjust withheld amounts. Most payroll systems are not set up to address such an issue, and that would impose a new and costly administrative burden on employers. We have had informal discussions with the Department of Revenue on this issue, and it appears they will be able to accommodate a tax-based resolution if this legislation passes quickly.

Thank you D.O.R.

In closing, I'd like to thank Representative Strachota, Senator Wanggaard and many of you on this committee for not only supporting AB 277 and SB 203, but also working with us during the budget deliberations to address the first part of this complicated issue for employers and workers. We are also thankful to the Department of Revenue and the Office of the Commissioner of Insurance for working with the employer community to weigh the true costs – to the state, to Wisconsin businesses and to consumers – of enacting versus not enacting this change.

Thank you for your time and consideration of this testimony. If you have any questions, please do not hesitate to contact me at (608) 334-0624.

Federalizing Wisconsin's Adult Dependent Requirements Fact Sheet

- Employers that offer state regulated plans (government-sponsored or fully insured) have to follow state and federal coverage requirements. Non-government employers that offer only a self-funded plan must follow the federal law. Some employers offer both a fully-insured and a self-funded plan to employees.
- AB 277 would federalize Wisconsin's tax code in regard to adult dependent coverage. The budget bill federalized, for the most part, the coverage requirements.

	State Law	Federal law
Effective Date of Required Coverage	January 1, 2010	Plans renewing after September 23, 2010
Applies to	State regulated "disability" plans, which includes stand alone dental and vision*	All health plans, not defined as stand alone dental and vision
Coverage Requirements	Budget bill federalized the requirements, except for a minor discrepancy related to coverage for military families*	To age 26, with a temporary exception for adults with other offer of employer coverage
Tax exemption – Dependents for which the employer is not obligated to withhold, and the employee to pay, taxes for imputed income equal to the value of the health benefit.	Wisconsin has not updated its tax code to codify recent federal law changes. Therefore, an exempt dependent is**: <ul style="list-style-type: none"> • A child under age 19 at the end of the year, or • A student under age 24 at the end of the year, or • Any age and totally disabled, AND • Who did not provide half his or her own support, AND • Who is not filing a joint return AND • Who lived with the parent for more than half the year, OR • Who would otherwise meet the definition of qualifying relative. 	Allowed through the end of the year in which the child turns age 26

* Addressed by Assembly Bill 210

**These provisions ONLY apply to the taxation of health benefits, not to the requirement that the plan provide coverage.

Taxation of Adult Dependent Insurance Benefits

Without action by the Legislature this fall, a major hassle for state businesses and a new state-imposed pay cut for some employees will take effect soon.

BACKGROUND

Wisconsin adopted an insurance mandate in 2009 to provide coverage to adult dependent children up to age 27 who were otherwise uninsured. When the mandate was adopted, the imputed income associated with this coverage was made subject to the state income tax.

When the federal government adopted the Patient Protection and Affordable Care Act in 2010, a similar federal mandate was established for coverage up to age 26. However, the value of an adult dependent child's insurance coverage was exempted from federal taxation.

Unlike other states, Wisconsin has not taken action to avoid applying the state income tax to these benefits. Wisconsin is now the only state in the nation to tax this coverage.

THE CHALLENGES

By requiring the taxation of the value of adult dependent child insurance coverage, both employers and employees face challenges.

First, employers must determine the value of providing these benefits to the employees whose children receive them. This is easier said than done. When state officials attempted to lay out guidelines for determining this figure, here is what they issued:

"The fair market value of the adult child's health coverage is determined by the employer and insurance provider. Contact your employer for further information. The Department of Revenue cannot determine the fair market value of the coverage."

Without clear direction from the state, employers are scrambling to determine how to best report the taxable value of this coverage. The polling of employees and determination of the taxable value are a substantial incremental expense to employers.

Second, employees whose children receive these insurance benefits will have an out-of-pocket cost assessed to them this fall. By the holiday season, employers will be forced to withhold a greater portion of the impacted employees' paychecks to cover the cost of taxing these benefits.

THE SOLUTION

To avoid these challenges, the Legislature should act during its Fall 2011 session to remove this tax. Representative Pat Strachota and Senator Van Wanggaard have drafted legislation that will favorably resolve this issue, Assembly Bill 277 and Senate Bill 203.

As part of the Governor's "Back to Work" Special Session, AB 277 and SB 203 will repeal this tax, ease the cost of doing business in Wisconsin, and prevent employees from taking a pay cut because this area of state tax law has not yet been federalized.



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For more information contact Jason Culotta, WMC Director of Tax & Transportation Policy, (608) 258-3400, jculotta@wmc.org, or visit www.wmc.org.

Wisconsin Association of Health Plans

DATE: October 11, 2011

TO: Members, Joint Survey Committee on Tax Exemptions

RE: Support for AB 277 – Imputed Income for Dependent Coverage

The Wisconsin Association of Health Plans supports AB 277 and commends Representative Strachota and the bill co-sponsors for their efforts to align Wisconsin Statutes with federal tax code by exempting from an employee's taxable income the costs of health insurance coverage for an adult dependent child.

Federal law requires individual and group health plans that offer dependent coverage to continue coverage of adult dependents up to age 26 and exempts the coverage from federal income taxation. This provides another commercial health insurance coverage option for young people who often forgo health insurance coverage. Wisconsin also requires coverage of adult dependents; however, Wisconsin tax code does not exempt the costs of extending adult dependent coverage.

Although Wisconsin tax code is generally consistent with federal tax code, AB 277 is needed to correct a misalignment that has created confusion in the market and may discourage parents from electing adult dependent coverage.

Wisconsin has long been a place with high rates of health insurance coverage and competitive health insurance markets. This is due in part to a sound regulatory environment that both protects consumers and works productively with insurers. The result is lower health insurance premiums than many other states. AB 277 will support this environment by encouraging coverage for adult dependents.

The Wisconsin Association of Health Plans encourages committee members to support AB 277.

The Wisconsin Association of Health Plans represents 17 health plans and their affiliated organizations.

Anthem Blue Cross and Blue Shield • Arise Health Plan • Children's Community Health Plan, Inc. • Dean Health Plan • Group Health Cooperative of Eau Claire • Group Health Cooperative of South Central Wisconsin • Gundersen Lutheran Health Plan • Health Tradition Health Plan • Humana • Independent Care Health Plan • MercyCare Health Plans • Molina Healthcare of Wisconsin • Network Health Plan • Physicians Plus Insurance Corp. • Security Health Plan • Trilogy Health Insurance, Inc. • Unity Health Plans Insurance Corp.

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